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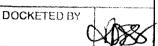


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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF CHAPARRAL CITY WATER COMPANY, 806 OR, IN THE ALTERNATIVE, NOTICE

INC. FOR A WAIVER UNDER A.A.C. R14-2-OF INTENT TO REORGANIZE UNDER A.A.C. R14-2-803.

DOCKET NO. W-02113A-10-0309

JOINT RESPONSE TO STAFF AND **RUCO DIRECT TESTIMONY**

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In the interest of simplifying this proceeding and reducing paperwork, Chaparral City Water Company, Inc. ("the Company") and EPCOR Water (USA), Inc. ("EPCOR USA") hereby provide their joint response to the direct testimony filed by the Utilities Division ("Staff") and the Residential Utility Consumer Office ("RUCO").

Generally, the Company and EPCOR USA have no objections to or disagreements with the pre-filed testimony of Staff witness Carlson and RUCO witness Rigsby concerning the proposed sale of the Company's common stock to EPCOR USA.

Both witnesses have accurately described the transaction and the impact on the Company and its ability to furnish safe and reliable water utility service. And both witnesses conclude that the proposed transaction satisfies the standard set forth in A.A.C. R14-2-803 for the reorganization of a public utility holding company. The only aspects of the direct testimony filed by Staff and RUCO that require response and discussion are two of the conditions

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¹ Under R14-2-803(C), "the Commission may reject the proposal if it determines that it would impair the financial status of the public utility, otherwise prevent it from attracting capital at fair and reasonable terms, or impair the ability of the public utility to provide safe, reasonable and adequate service."

FENNEMORE CRAIG ROFESSIONAL CORPORATION
PHOENIX recommended by Staff.

First, Mr. Carlson recommends that the Company be ordered "to maintain its quality of service, including, but not limited to, that the number of service complaints should not increase, that the response time to service complaints not increase, and that service interruptions should not increase as a result of the reorganization." (Carlson Dt. at 9.) As a general matter, this condition is not problematic. EPCOR USA intends to ensure that the Company provides high quality service, high levels of customer care, and the highest levels of system reliability and adequacy. And it is clearly appropriate for the Commission to make certain that the quality of service is not adversely affected by the transaction. However, the standards employed in this condition are uncertain and may lead to confusion later.

The fact that a service complaint is filed does not necessarily mean that the quality of service has deteriorated. Likewise, a service interruption may not indicate a problem with the quality of service or the system's reliability, but instead may be caused by circumstances beyond the Company's and EPCOR USA's control. Therefore, the Company and EPCOR USA suggest that this recommendation be modified to more precisely define the events that would be used to determine if a change in the quality of service has occurred.

Second, Mr. Carlson recommends that the Company and its affiliates "fully cooperate with Staff in any future inquiries or requests for information and/or documents regarding any transactions that Staff determines might have some effect, direct or indirect, on the Company's operational or financial health." (Carlson Dt. at 9.) The Company and EPCOR USA acknowledge that the Commission has been delegated broad regulatory and investigatory authority with respect to public service corporations. Under A.A.C. R14-2-804, for example, the Commission has the power to review and approve certain transactions between a public service corporation and its affiliates.

The proposed condition thus appears to require that the Company continue to comply with existing law and agency regulations. The Company and EPCOR USA intend to cooperate with

the Commission. We understand that this condition would not require the Company or EPCOR USA to waive its legal right to raise legitimate objections to information requests. Consequently, if the condition is adopted by the Commission, the language should be modified to clarify that it does not override the Company's rights to object to inquiries or requests for information and to argue for the confidentiality of submitted information in an appropriate case.

As indicated, the Company and EPCOR USA have no serious disagreements with the Staff and RUCO direct testimony, and generally do not take issue with the conditions they have recommended. The foregoing suggestions are intended to ensure that there is no subsequent confusion over standards and requirements imposed on the Company if the conditions recommended by Staff are adopted by the Commission.

RESPECTFULLY SUBMITTED this **24** day of November, 2010.

By Norman D. Janu

Norman D. James

Fennemore Craig, P.C.

3003 North Central Ave., Suite 2600

Phoenix, Arizona 85012

Attorneys for Chaparral City Water Company

Thomas H. Campbell Lewis & Roca 40 North Central Ave. Phoenix, AZ 85004 Attorneys for EPCOR Water (USA), Inc.

CERTIFICATE OF SERVICE

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2	ORIGINAL and thirteen (13) copies
3	of the foregoing were filed this day of November, 2010, to:
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5	Docket Control Arizona Corporation Commission
6	1200 W. Washington St. Phoenix, AZ 85007
7	,
8	this day of November, 2010, to:
9	Teena Jubilian, Administrative Law Judge Hearing Division
10	Arizona Corporation Commission 1200 W. Washington St.
11	Phoenix, AZ 85007
12	Robin Mitchell, Esq.
13	Bridget Humphrey, Esq. Legal Division
14	Arizona Corporation Commission 1200 W. Washington Street
15	Phoenix, AZ 85007
16	Steven Olea, Director
17	Utilities Division Arizona Corporation Commission
18	1200 W. Washington Street Phoenix, AZ 85007
19	this day of November, 2010, to:
20	Daniel Pozefsky, Chief Counsel
21	Michelle Wood, Esq. Residential Utility Consumer Office
22	1110 W. Washington Street, Suite 220
23	Phoenix, AZ 85007
24	
25	By Mary L House
26	2372755

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